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C O N F I D E N T I A L SECTION 01 OF 02 MELBOURNE 000150

SIPDIS

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TAGS: [EIND](#) [ECON](#) [ETRD](#) [AS](#)

SUBJECT: FORD OPTIMISTIC EVEN AS AUTOMOTIVE SLOWDOWN
CONTINUES

REF: A. A) CANBERRA 1134
 [B.](#) B) CANBERRA 1079
 [C.](#) C) MELBOURNE 137
 [D.](#) D) MELBOURNE 125

Classified By: Michael Thurston, Consul General, Melbourne. Reasons: 1
.4(d)

Summary

[¶](#)1. (C) Despite ongoing challenges in the Australian auto industry, Ford says it is holding its own. Handouts from the Rudd government have been well received by the industry and Ford Australia's CEO remains optimistic. However, Ford is reexamining its position in the highly competitive Australian market, and may cease manufacturing cars in Australia if market conditions dictate. End Summary.

Ford "Holding its Own"

[¶](#)2. (C) Ford, similar to GM/Holden, continues to face significant obstacles in Australia. During a December 15 meeting, Ford Australia CEO Marin Burela told Consul General that low consumer confidence, a fractured supply chain, tough international competition and tight financing remain challenges for Ford Australia (reflets). Burela is "worried" about the future of Australia's components manufacturing sector and has already started to look overseas for parts as concern mounts over the reliability of smaller Australian firms. He believes the components industry desperately needs a well thought out consolidation with support from the Australian government. In addition, the auto industry has yet to develop a strategy for dealing with cyclical downturns despite their regularity in the car business.

[¶](#)3. (SBU) Despite this daunting list of challenges, Burela said that Ford is "holding its own." According to Burela, Ford's global board saw a "storm on the horizon" two years ago and raised a significant amount of capital by divesting premium brands Aston-Martin, Jaguar and Land Rover as well as borrowing from commercial lenders. Burela, who was previously the lead for Ford's Global Small Car project in Europe, said that Ford would listen to a reasonable offer to sell Volvo. For this reason, Burela believes that Ford will have enough cash to carry it well into 2009. He praised the Rudd government's automotive assistance plan announced on November 10 (ref. A) as "comprehensive, providing the appropriate level of assistance to the industry." Burela stated that the plan includes a "market reality check" that protects taxpayers by only reimbursing manufacturers for producing cars that the consumer wants.

[¶](#)4. (SBU) Dealerships are feeling the brunt of the slowdown as consumer financing remains a challenge (reflets). Burela noted, however, that the Rudd government's December 5

announcement of a "Special Purpose Vehicle" fund will help to fill the void left by GE and GMAC's exodus from the auto financing market. The plan, which is due to commence on January 1 with support from Australia's four major banks, will provide liquidity to dealerships for up to one year until a more permanent solution can be found. He also described a strong effort on Ford's part to improve the customer experience when visiting Ford dealerships. Turning to his competitors, Burela said that he was "worried" about GM/Holden and warned that the supply base in Australia would not work well without General Motors.

End of Ford Australia Manufacturing?

¶ 15. (C) Burela has a three pronged strategy for seeing Ford Australia through the storm. First, he acknowledges that Australians have shifted their preference from large cars to small, medium and lifestyle vehicles. Burela is gambling that the newly designed Ford Fiesta - a small, stylish four cylinder vehicle that will be marketed globally - will capture the imagination of a new generation of buyers. The Fiesta will also be available in a diesel engine and an after-market liquefied petroleum gas (LPG) conversion model; both of which are popular in Australia. Once on the showroom floor, Burela hopes that these new customers will consider Ford's other models. Second, Ford Australia will work to target its marketing plan in Australia. Burela said that his company has struggled to communicate recent accolades such as the Ford Falcon G6E turbo winning Cars Guide's 2008 Car of the Year award. Burela wants to give Australian consumers fewer, high quality choices that are accompanied by

MELBOURNE 00000150 002 OF 002

distinctive "ambiance."

¶ 16. (C) Finally, Burela intends to right size Ford Australia. He said that the "build it and they will come" approach has not worked. When asked about the future of the 6-cylinder Ford Falcon, which is manufactured entirely in Australia, Burela responded that Ford Australia may eventually cease production of the vehicle. The proliferation of brands into Australia has squeezed Ford's market share and Burela believes that the company may not be able to maintain the volume necessary to sustain production facilities in Australia. Burela went on to say that global platforms are becoming more important in the auto industry and the Ford Falcon, essentially an Australia-only platform, is in danger of becoming obsolete. Burela described the Falcon as a "bridge" to hold Ford Australia over until the imported Fiesta could take hold and begin to rebrand Ford.

¶ 17. (SBU) Although Burela touted his company's A\$21 million (US\$14 million) investment into its Geelong engine plant, he admitted that the engines would only meet Euro 4 regulations rather than the present Euro 5 standard. (Note: In addition to the Falcon, Ford Australia also manufactures a sports utility truck, the "Ute." End note.) In addition, Burela said that Ford is tweaking the existing in-line 6-cylinder engine rather than developing next generation V-6 technology. Ford Australia's business model is not heavily export oriented. In 2007, Ford exported only 7000 vehicles, mostly to South Africa and New Zealand. Burela stated that Ford Australia is more focused on exporting intellectual property and highlighted a A\$600 million (US\$402 million) pick-up truck designed in Australia that will be sold overseas.

Comment

¶ 18. (C) Ford Australia's new CEO, who called for 450 additional redundancies after arriving on October 1, is globally rather than locally oriented. In contrast, GM/Holden's chief Mark Reuss sees his company as an independent business unit attached to General Motors. When asked about Ford's troubles in Australia, Burela's first

impulse was to discuss the relative strength of the global Ford brand vis-a-vis other U.S. manufacturers. While Ford Australia is intimately tied to the fate of the U.S. parent, Burela exuded confidence that the Rudd government's recent assistance packages will help Ford, GM/Holden and Toyota survive in Australia. The Australian auto industry is not yet out of the woods, however, and Burela's comments about the end of Australian manufactured Ford vehicles would surely be met with a healthy degree of opposition in many circles.

THURSTON